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Mar. 10, 1999 **LETTER 1273**

PRICE ACTION: I've suspected all along that once the bear gets his claws deep into this market, the first phase of the decline will be an **eroding affair** -- but the erosion will be **extraordinarily persistent.** And that's about what has happened. The two words that describe the bear market action so far -- **erosion** and **persistence.**

To monitor this ongoing bear market, I've been focused on five critical items: **the S&P 500, my Primary Trend Index (PTI), my Big-Money Breadth Index (BBI) and the advance-decline ratio and the daily high-lows.** New lows begin to outnumber new highs on February 2. The PTI turned bearish on February 12 when it dropped below its 89-day moving average. The BBI turned bearish when it broke below its critical support level on March 1. On March 3 the advance-decline ratio sank to within a tiny fraction of its October bear market low.

On March 5 (see Late Notes for more), the Dow rocketed to a new record high while the S&P missed hitting a new high by "inches." But a slew of my other indices and averages have failed to confirm. The new high in the Dow was accompanied by only 78 new highs on the NYSE, and only five of the 30 Dow Industrial stocks recorded new all-time highs.

So the "technical hodge-podge" goes on with almost all my tools saying "bear market" but with the big-cap averages stubbornly refusing to confirm. Frankly, the last time I saw anything like this was during 1972 -- at that time the breadth of the market declined almost all year, this in the face of a rising Dow. Finally, the extended divergence was resolved during 1973 and 1974, in the nastiest stock market decline that I have ever lived through. Of course, each situation is different and the market never acts exactly the same, but the parallels between the current situation and the situation of the early 1970s provides food for thought -- and it's certainly got me thinking.

U.S. Economy to Keep Rolling, Analysts Predict

By JAMES F. PELTZ and STUART SILVERSTEIN
TIMES STAFF WRITERS

How long can the good economic times last?

At least through this year, most experts say. And you've got to give them credit for venturing a guess. After all. they've been mistaken

ECONOMIC GROWTH IN LAST PART OF '98 WAS ROBUST 6.1%

TIED TOP RATE OF THE 90's

With Pace of Inflation at 0.7%, Expansion, Now at 8 Years, Gives No Sign of Ending

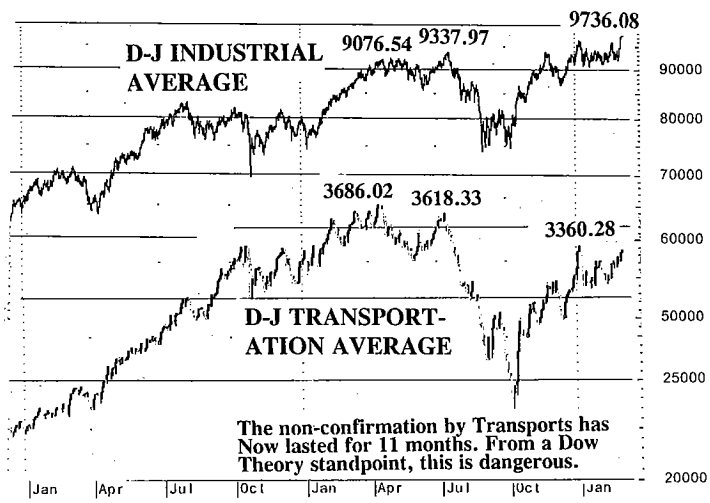
THE MARKET: Looking Ahead: I'm continually surprised by the almost universal talk, even from supposedly sophisticated observers, to the effect that "the economy remains strong, and therefore, no bear market is possible." Veteran subscribers to these Letters know that **all facts are history,** and the stock market is not interested in history. The function of the market is to look ahead, to discount. Therefore, when some talking head on CNBC tells us how good the economy is, and then he applies that "good news" to the stock market, you know he's just another amateur talking through his hat. In these Letters, we concentrate on what the market is telling us about the future, not what the talking heads are telling us about business conditions as they existed last week or last month.

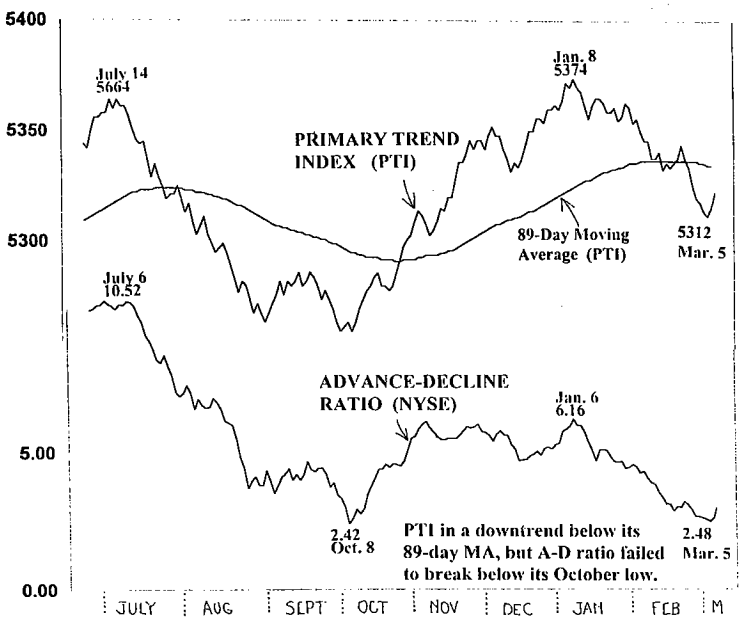
Feb. 26 DJIA 9306.58; PTI 5320; A-D Ratio +2.66
Mar. 5 DJIA 9736.08; PTI 5324; A-D Ratio +2.96
Dow Yield: 1.59%; Dow Price/Earnings: 24.8
Dow 144-day MA: 8987; Dow 34-day MA: 9553
Dow Times Book Value: 6.10; PTI 89-day MA: 5335
Percentage of Undervalued Blue-chips: 6%
Gold 34-day MA: 290

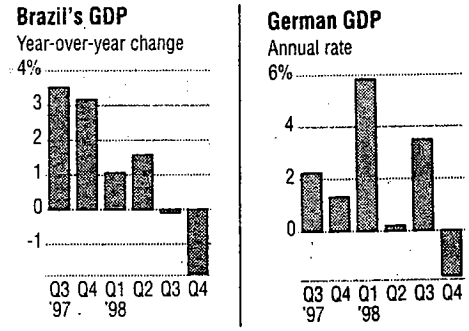
PLAYING THE OPENING: Have you noticed that the S&P futures are almost always up just before the market opens? Strangely, the opening price of the futures has almost no correlation with how the stock market finally closes. I have a thought on this. Every day the market receives **automatic** new investments and reinvestments from mutual funds. It's entirely possible that savvy traders count on this automatic influx of new money, and they figure that there will be an upward bias at the opening of the market as this automatic new money pours in. So why not buy the futures for the opening pop and then dump the futures maybe 20 minutes after the opening? Of course, as the bear market moves on and net liquidation hits the market every day, the openings will be down and the savvy traders will reverse their tactics.

THE FUNDS: Roughly 90% of the mutual funds have been unable to keep up with the S&P 500, the Dow or the Nasdaq (all heavily sensitive to large-capitalization stocks). This has frustrated the mutual fund buying public, who are now cutting back on buying their favorite funds and instead are switching to index funds (or in many cases, bond funds). Ironically, this concentration of money in the index funds has accelerated the flow into the big-cap stocks while the rest of the market is largely neglected. This whole process has produced one of the most lop-sided stock markets I've seen in 45 years of watching markets.

PRIMARY TREND INDEX (PTI): On February 25, the PTI broke below its 89-day moving average ("sell signal"), and it is now in a definitive declining trend (see page 2 chart). Thus, the PTI has confirmed what the Dow Theory bear signal told us on August 4 -- the primary trend of the market is **down.**







DISBELIEF: As I see it, the great majority of investors and traders do not believe that the primary trend of the market is down. In other words, they don't believe that we are in a bear market. They don't believe it despite the fact that since April 3, 1998, the **majority** of stocks on the NYSE, the Nasdaq and the Amex have been **declining.** In fact, one advisory that I have just read states that since everyone knows that the advance-decline ratio is in a downtrend, the situation is not important. They base this on the thesis that when everyone knows the market has a problem "it often stops being a problem."

Hold it -- you can take a contrary opinion against widely-held sentiment, but you can't take a contrary opinion against market action. Market action is a **fact.**

Actually, what I find so fascinating is that despite the fact that the advance-decline on the NYSE has wiped out **literally all of the gains of the post-October advance,** nobody seems to be particularly concerned. Yet, market history tells us that extended periods of price/breadth divergence (eleven months in the current instance) **usually precede major and often disastrous stock market declines.** As a matter of interest, the last time we had a year-long decline in the A-D ratio against a rising Dow was in **1972** -- that occurred prior to the disastrous 1973-'74 collapse. **Note:** Subscribers who have my A-D ratio chart book might study the 1972 market page.

THE PICTURE: The poet, John Donne, wrote, "No man is an island," but can one nation be an island of prosperity in a recession-wracked world? The answer, evidently, is, "Yes, at least for a while." And happily for Americans, the single island of prosperity has been our own USA -- at least for a while.

In the meantime, the so-called "economic locomotive of South America," **Brazil,** has produced its worst Gross Domestic Product numbers in six years. Brazil's GDP fell 1.89% in the fourth quarter compared with the fourth quarter of '98.

At the same time, **Germany,** the muscular economic locomotive of Europe, surprised the experts as its economy fell in the fourth quarter at a 1.7% annual rate, the first slide in three years. Meanwhile, the German stock market has been sliding ominously.

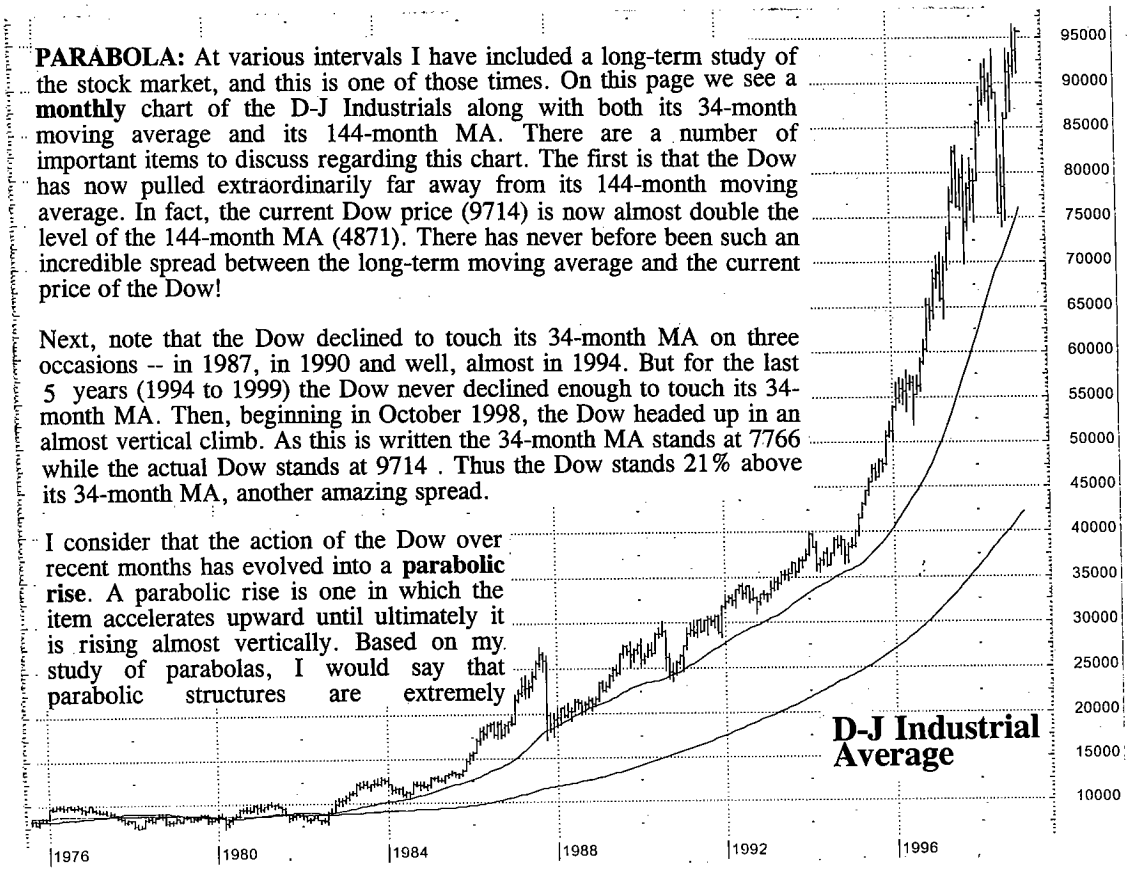
Has the strength in US stocks been based on booming business conditions and rising earnings? No, the more likely reasons for strength in the big averages are as follows : **(1)** Liquidity. The Fed keeps pumping up the money supply. **(2)** Technology. The US is leading the world in many areas of technology; the rise of the Internet has generated massive bullishness on the part of investors. **(3)** The importance of stock dividends has been largely dismissed in favor of the concept of growth. **(4)** The Dow hasn't broken below the low of a preceding year since 1982; thus fear of a bear market has almost disappeared. The fact is that the great majority of today's investors have never experienced a bear market. **(5)** Last but not least, gambling fever ("easy money without working") has swept the nation. The stock market has become almost a branch of Las Vegas, and people I know who never even thought of buying a stock are now day-trading on the net.

In the meantime, Fed Chief Alan Greenspan has ascended to almost god-like status, and the nation hangs on his every word. Nevertheless, Greenspan has his problems. His problem: Greenspan knows in his heart that stocks are ridiculously overvalued, and he is fearful of a bear market collapse. What he would like is for stocks to halt their rise and back off gently. But Greenspan is very wary of talking bearishly, lest the market cave-in and he be blamed for the collapse. Thus Greenspan seeks the "safe" middle course, and we can almost hear him saying to himself -- "The stock market is high but hopefully OK, and the economy is in fine shape. Of course, it would be better if the market simmered down, but er -- not too much down."

BONDS: It's axiomatic that **stocks are always competing with bonds.** Furthermore, nothing affects the price of stocks as much as swings in price/earnings ratios. And nothing affects price/earnings ratios more than interest rates. The interest rate that every knowledgeable investor watches is the rate on the 30-year Treasury bond or "long bond."

A few months ago there was an almost universal belief that rates were heading down (Merrill is still in that camp). But that's not what happened. Fear of a revived inflation plus rumors of Japanese selling of US bonds, pushed bond prices lower and moved the yield on the long bond above 5.7%.

The ratio of the yield on the S&P 500 (1.3%) to the yield on the 30-year Treasury bond (5.6%) is now **4.3 in favor of bonds -- the highest ratio in favor of bonds and unfavorable for stocks in market history. Note:** See comments on the dollar in Notes & Quotes.



PARABOLA: At various intervals I have included a long-term study of the stock market, and this is one of those times. On this page we see a **monthly** chart of the D-J Industrials along with both its 34-month moving average and its 144-month MA. There are a number of important items to discuss regarding this chart. The first is that the Dow has now pulled extraordinarily far away from its 144-month moving average. In fact, the current Dow price (9714) is now almost double the level of the 144-month MA (4871). There has never before been such an incredible spread between the long-term moving average and the current price of the Dow!

Next, note that the Dow declined to touch its 34-month MA on three occasions -- in 1987, in 1990 and well, almost in 1994. But for the last 5 years (1994 to 1999) the Dow never declined enough to touch its 34-month MA. Then, beginning in October 1998, the Dow headed up in an almost vertical climb. As this is written the 34-month MA stands at 7766 while the actual Dow stands at 9714 . Thus the Dow stands 21% above its 34-month MA, another amazing spread.

I consider that the action of the Dow over recent months has evolved into a **parabolic rise**. A parabolic rise is one in which the item accelerates upward until ultimately it is rising almost vertically. Based on my study of parabolas, I would say that parabolic structures are extremely dangerous -- fun and exciting as long as they are in their upside phase -- but disastrous when they finally exhaust themselves and turn down.

Once a parabolic rise gets underway, it's literally impossible to forecast how far it will carry or when it will end. One reason is that parabolas are a reflection of intense bullishness and frantic speculation -- in other words, they are a product of raw emotion. When you're dealing with this kind of sentiment, there's no way of telling when the emotion will burn out. One thing is certain, however and that is when the super-bullishness finally does burn out, the parabola will break down, and the ensuing correction is usually severe, often wiping out a major portion of the entire preceding rise.

That, in a nutshell, is my big picture-view of the stock market. When the current massive parabolic rise burns itself out, the bear market will begin to decline in earnest. Right now, I believe, based on the continuing poor performance of breadth and based on the refusal of the Transports and the Utilities to confirm the Dow and the S&P, that the parabola rise is in the process of dissipating its upside momentum.

INVESTMENT POSITION: The bear is still in the box. Traders are finding it extremely difficult to beat the bear, and stockholders (investors) are watching their portfolios slowly erode along with the deteriorating breadth. None of the above should come as a shock to my subscribers. To me, the only surprise is how slowly this bear market is developing (but then, I always maintained that the bear is in no hurry).

I've often reminded subscribers that **"during a bear market, values deteriorate through time."** I've also reminded subscribers that the bear market began on April 16, and that almost 11 months have elapsed since then. During that 11 months the bear has been held back (although breadth has caved in). But the big averages holding up makes the bear madder than hell, and when he's mad, he's just apt to make up for lost time.

A lot of people are asking about bonds. In the early stages of this bear market, bonds can do anything. Since the economic statistics are coming through very strong the bonds have been hit hard, and they continue under pressure. But as the bear market matures and as the economic situation worsens, and as people and businesses tighten their belts, there will be an increasing need for INCOME (and currently stocks provide no income). In that atmosphere interest rates should sink to low levels and the best-grade bonds should go into a bull market -- but note that I say only the best-grade bonds. As the bear market deepens, the operative word, and I want to repeat this -- will be INCOME. And the nearest thing to guaranteed income in the third and final stage of a bear market is high-grade bonds.

Right now, it's too early to go heavily into bonds (unless you've got a lot of patience and are willing to ignore the daily prices). So yes, I like bonds for a year or so from now, but currently the place to be is T-bills going out as far as a year.

NOTES & QUOTES: Yes, subscribers, I'm going to bug you until I get most of you on the net. It's just a huge advantage for you (and a tremendous source of satisfaction for me) to be able to give you my daily thoughts on what's going on in the markets. And this is particularly true during the period ahead, which I believe will be critical, historic, and extremely important for all of us. So please, if you don't have a computer -- get one, get on the net, and punch in to www.dowtheoryletters.com. On the happy side, we are receiving loads of requests for our FREE net service every day. And requests are being filled very quickly.

* *

The strong dollar and the amazing appetite that Americans have for buying foreign merchandise has set a record -- the US trade deficit for 1998 was $168 billion, up 25% from 1997. This year's deficit could hit $300 million, courtesy of the strong dollar.

Americans binge on cheap imports from Asia

By Nancy Dunne in Washington

The US trade deficit in goods and services surged to a record $168bn in 1998, the Merchandise imports from the Pacific Rim rose to $288bn, comprising more than one-third of the $910bn total imports. Exports of action in open markets over- seas to American products." "The basic problem is that demand overseas remains weak," said Gordon Rich- unfavourable global eco- nomic conditions." Economists are divided over the impact of the trade deficit. Most say the US Sedin last year, the deficit in cars, trucks and parts with Mexico rose to $16bn, as the US car industry could not to move production value is added by elec- labour and they are shipp back to the US market." The politically worrisc trade deficits with China

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Yes, the dollar remains strong, sending the British pound and the Japanese yen tumbling and knocking the much-touted euro down to

to 109 (the euro started at 117). And don't even talk about Brazil's real, which has fallen 40% against the dollar. All kinds of reasons are being put forth to explain the dollar's strength, but here's what I think, and I've thought this for a long time. The overseas currencies have been outlandishly high, and you can see it in the rip-off European and Japanese prices. Hell, I can get a better meal here in San Diego for six bucks than I can in Paris or London for two or three times the San Diego price. Hotels are cheaper here, food is cheaper, cabs are cheaper, almost everything is cheaper here. The story is that what you get for a dollar here is a bargain compared to what you get in Paris or London or Tokyo -- so finally, finally, foreign currencies are hitting the down escalator, something they should have done a long time ago (who knows, I may even visit Paris again some day, but not yet).

* *

A rapist in the White House? No Democrat is denying it, and the Republicans are remaining quiet. The country is bored with Clinton's criminality, and they'll remain bored -- until the economy turns down . . . Hillary for Senator? I don't think it will happen. She isn't ready to take the tough questions, and the job isn't "big" enough for her. Hillary will be safer heading some national committee where she can promote her socialism and government takeovers in safety. Latest: Hillary's already slipping in NY polls -- will she run?

* *

A recent study (UCSD) shows that New Yorkers die at a rate 55% higher than the US average. I could have told you that. Hassles make you angry. Anger increases heart attacks. New York is the land of hassles. Everything you do in NY is a hassle. Which is why I moved to San Diego.

* *

One advantage for the Internet stocks is that with few exceptions they have no earnings. Consequently, they can sell on fantasy projections of how well they are fated to do. But once earnings come in, my guess is that they'll start to sell like other stocks (and maybe like other retail stocks) -- that is, based on price/earnings ratios and growth of earnings. In the meantime, EVERYBODY is getting on the net. And if a ".com" doesn't help and hype your stock, how about a good old-fashioned stock split?

* *

Russia is sinking into the void. Analysts are saying that Russia is becoming "a failed state," not breaking into pieces as the Soviet Union did in 1991, but simply ceasing to function as a cohesive federal government. It now seems that Russia is fated to drift into a period of extended stagnation, a period when no one person or no one party rules. Hobbled by steady economic decline, the government (such as it is) has become dysfunctional in many of its core responsibilities such as the military, the courts and tax collection.

* *

It hasn't been publicized but it turns out that Russia's central bank duped the IMF and other foreign creditors by hiding billions of dollars of currency reserves in tax havens abroad. The notion that Russia thumbed its nose at Western creditors doesn't surprise many international investors who have long been complaining about Russian corruption. But what really has shocked observers is the fact that the IMF poured $19 billion into Russia over the past decade -- and totally lost track of what happened to the money. Meanwhile, Russia is asking for more money. Do you think they'll get it?

* *

A few weeks ago a seat on the NYSE sold for $2 million, tying the record set last March 9. The price of seats tend to mirror the rise and fall of stocks, but spurts to record highs (such as the recent spurt) frequently precede market tops.

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Ah, the high life and fat prices -- the chairman of Fred Meyer, Inc. made history here in San Diego a few weeks ago. He just paid $16 million for a home here in La Jolla. But wait -- he may have gotten a bargain. The house covers 30,000 square feet on 7.65 acres and was listed for $25 million. The sale price evidently set a San Diego record.

* *

The two biggest businesses in the city of New York used to be printing and textiles/garments. Both have faded. In fact, the apparel business in the US is practically dead. A few weeks ago Cone Mills (the biggest supplier of denim in the US) announced that it will fire 650 workers. The same week, Levi announced that they will close 11 of 22 plants and fire 5,900 workers. Russell, a large manufacturer of sweatshirts and T-shirts, will close 24 of 90 plants. Fruit of the Loom has cut 7,000 jobs. A friend in the textile business tells me that he doesn't even deal with US companies any longer. He might buy fabrics from Taiwan or China and ship them directly to Italy.

* *

Last week I saw the HBO special, "Lansky," starring Richard Dreyfuss. It brought back memories. I have an old 16mm film. On it a bunch of the guys I used to hang out with after the war in the late-'40s are cavorting around at Atlantic Beach on Long Island. One kid in the film is flexing his muscles and grinning into the camera. The kid is Dickie Schwartz. Dickie's mom was married to Meyer Lansky -- Dickie was Lansky's step-son. Dickie was always the show-off, little Mr. Muscles, handsome -- almost beautiful. Dickie was small, maybe 5'6", but he possessed a great build. The other guys were tough pals of mine -- Whitey Taylor ("the mad Irishman"), Carmine ("don't mess with me") Longobardi, Joe Spector (his father was the yam king on the docks), my special buddy, Wayne Marcus (I still keep in touch with Wayne) and Julie Marcus (Julie, who owned an Exchange seat, died of a heart attack on the floor of the NYSE). Dickie moved down to Florida to be near his step-father. One night in a bar he got in an argument with some guy. Dickie, always the show-off, pulled out a pistol and shot the guy in the chest. The guy dropped to the floor -- stone dead. It turned out the guy Dickie shot was a "made" man, a member of the Mafia. That was a major mistake. You see, you don't kill anyone in the Mafia without a definite "go ahead" from the higher-ups. The "contract" went out. A few weeks later Dickie parked his Cadillac in front of a convenience store. A man walked up in front of Dickie's car, pulled out a shotgun, and put a single blast through the windshield of Dickie's car. Dickie opened the door of his car and rolled out dead on the street. They never found Dickie's killer. In the book, "Little Big Man, the life of Meyer Lansky," there's a picture of Dickie lying face down on a Miami Street. It's hard to believe that this is the same handsome kid that I have on my old 16mm film, smiling into the camera and flexing his muscles.

* *

Oops, a booboo. In the last Letter I included a paragraph showing how Jimmy ("Big Boy") Valente described the Democrats. Big Boy is a fictional character based on the true governor of Minnesota, Jesse Ventura. Jesse never used those words (although they do suggest his thinking). So forget that piece . . . Second booboo -- GM isn't thinking of buying Volvo, they bought it -- for $6 billion. Sorry, sorry, sorry, sorry, sorry.

* *

Where Are We? Maybe Joseph Schumpeter, the great Austrian economist, put forth a fascinating and brilliant thesis. Schumpeter divided the economic picture into a series of waves (pictured in a recent issue of the *Economist* (this magazine provides more information in a single issue than any magazine that I know of). This chart from the *Economist* tells the story. The first 60 years, 1785 to 1845, featured water power, textiles, iron. The next 55 years, 1845 to 1900, featured steam, rails, steel. The next 50 years, 1900 to 1950, featured electricity, chemicals, gas engines. The next 40 years, 1950 to 1990, featured petrochemicals, electronics, aviation. The current period, 1990 and projecting to last to around 2020 features digital networks, software, news media. Note how the successive cycles are accelerating in time, each cycle shorter than the preceding.

Most of the undeveloped nations are still stuck in the fourth wave or the 1950-'90 wave, and this is their big problem. Profits for companies operating in the last wave are slim, whereas the big profits are in the cycle that began in 1990.

What can we expect when the current wave ends? Ah, I leave that to my children and even more likely to my grandchildren (of which

I now have five). Oh well, here are my humble guesses -- the next wave will be characterized by biotech and life-extension, computer "intelligence," new energy sources and maybe inter-galactic flight.

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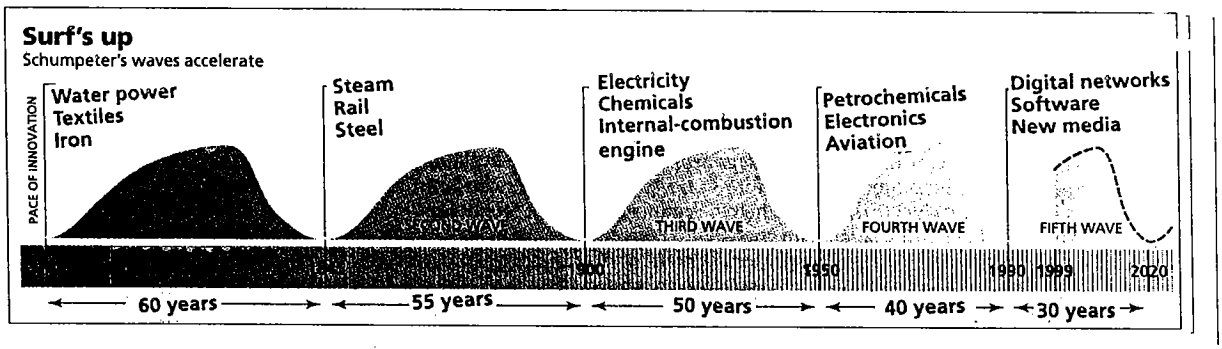
SURVEY INNOVATION IN INDUSTRY



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A note just received from subscriber: "I've written to you before about the good chelation has done for me, and I thank you again for mentioning it in the Letters. It's entirely due to you that I looked into it. I have gained some health, if not wealth. It's now been three years, and I can walk without stopping every tenth of a mile." N.K., Granada Hills, CA. OK, I'll say it again, if you even suspect you have a heart problem investigate chelation. You can get the story via a book on chelation from your local health store or from www.chelation.com on the Internet.

* *

I spent an afternoon at our huge new Fashion Valley shopping complex here in San Diego. The place was packed. People were looking, shopping, eating, wandering. And I wondered whether the Internet was really going to take over shopping. In certain areas, yes, but there's nothing like seeing, touching, feeling an item. Nevertheless, here's a quote from Kurt Barnard, President of Barnard's Retail Consulting Group: "As the technology advances and comfort levels rise, online buying will be at least 35% of total retail sales within five years. Over time the Internet will make it easy to shop globally."

* *

Silicon Valley in California has produced more millionaires and more new-era corporations than any area of the world. But do you know what number two is? It's Israel. Israel is a hot-bed of computer concepts and new age companies. Here's an interesting comparison. The US has 35 engineers or technicians for every 100,000 of population. But Israel (largely because of a large influx of Russian scientists and engineers) has 135 engineers or technicians per 100,000 of population.

* *

Is morality collapsing in the US? Is President Clinton just a reflection of what's happening to American morality, and is this why the majority of the population accepts him? Check this out -- last year 32% of all children born in the US were born to unwed mothers (up from 18% in 1980). Today 40% of all the kids in the nation live in homes without their fathers. Men, even well-educated, affluent men, are denying their children. Poverty used to be the excuse, but not any more. Immorality is growing across class lines. Actually, the definition of immorality has changed. Ask our President, he's even changed the definition of sex -- and of lying.

* *

I admit it, I get *Playboy* magazine, but who needs it – I get one or two Victoria Secret catalogues every week (the clothes are very innovative).Victoria is owned by Intimate Brands which in turn is 83% owned by the Limited. The Limited will spend $100 million on advertising this year, up from $50 million in '97. Victoria will send out 400 million catalogues in '99, which, get this, is more than the combined circulation of the top 10 fashion magazines. As I said, who needs *Playboy*.

* *

Dell's been a hot stock; its business is selling PCs over the net. Dell boasts a P/E in the stratosphere. OK, so what's Dell actually doing? *Market Logic* [(800)442-9000] writes this: "Think Dell is a high-technology flyer deserving such a rich valuation? Do yourself a favor. Take a screwdriver and open up your personal computer. We did. Although we really didn't understand what was going on in the printed circuit board (Dell doesn't make that) or in the floppy, CD-ROM, or hard drives (Dell doesn't make those either) -- to us, the inside of a toaster looks more complicated. The mystique about PC makers is that they are high-tech par excellence. The truth is, they are little more than bundlers of components made elsewhere and good marketers. Anybody can bundle and anybody can hire good marketers. Is Dell worth 100 times earnings?" **Russell Comment:** I don't think so.

* *

The "I've had enough" section: I've had enough of seeing Peter Lynch's face in ads for Fidelity. Lynch hasn't run any funds since 1991. Peter, please, get out of the ads and run a fund again, or just get out of the ads, I love your face but enough . . . Please, no more ads by the milk industry showing celebrities with milk mustaches. We get the idea. Now, you get an idea -- for a new ad . . . I've had enough of lousy movies, particularly with theater prices rising to the $8.50 level (I hear in NY the price has risen to an outrageous $9.50). The only film I've seen worth $9.50 in the last year was "Saving Private Ryan." The rest were worth about what I pay to rent a video -- $2.95 . . . Can anybody stop Larry King from name-dropping? Nah, forget this one, it's impossible . . . I've had enough of computers that break down or go blank. Let's face it, computers are still not user-friendly, they're great but unless you're a genius you're going to need help with your "friendly computer" . . . I've had enough of people who call me to inform me that their doctors say chelation is nonsense or even dangerous. And I've had enough of their prejudiced or "know-nothing" doctors. . . . I've had enough of stock splits. If a company wants to jazz up its stock, it either puts a ".com" on the end of its name or it announces a split. Give us a break . . . I've had enough of corporations announcing that they're going on the Internet. C'mon, everybody will be on the net -- heck, I'm even on the net. . . I've had enough of talking heads on TV telling us about corporations that have "beaten expectations." Whose expectations, and what about those ridiculous reports of quarterly earnings being up "three cents above expectations"? Aw, just call me Mr. Grumpy.

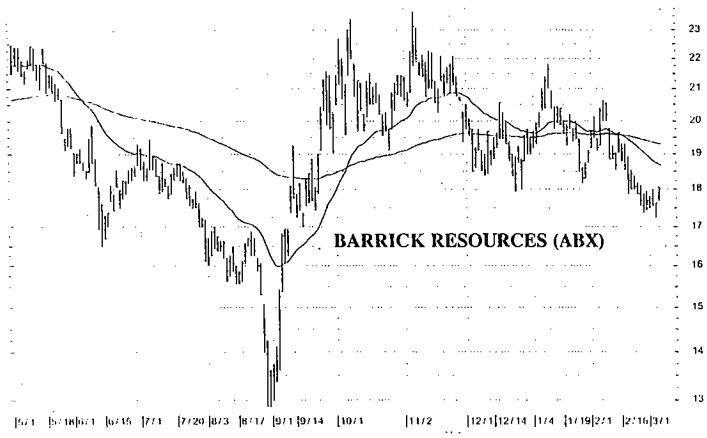
Wait, one more. I've even had enough of this long, long extended divergence between the big-cap stock averages and the majority of stocks as measured by the advance-decline ratio. The bear seems intent on wearing us (me) out. Please, Mr. Bear, get it together. Or is this going to be the longest divergence period in stock market history?

* *

I guess this is the year when people are remembering World War II. Last week's *Newsweek* magazine devoted the entire issue to America's wars. At the movies, "Saving Private Ryan" has been a box office bonanza, and it was followed by a successful, "The Thin Red Line." I don't think any of my five kids have asked me about the war. I'm not even sure they know there was a war. The fact that they have never asked me makes me feel a little like a dinosaur from a long-forgotten world. Happily the world my kids live in today is a lot happier than the one I grew up in, at least it is for Americans. Nevertheless, never a day goes by when I don't think about the war and my lost youth. In 1945, after our bomber crew split up, I never saw or heard from any of those five guys again. And I often wonder what happened to them, particularly my pilot, Art Herron (I was the bombardier), who hailed from Grand Rapids, Michigan. A few months ago at a friend's jewelry store, for some reason, talk of the war came up, and a lady, probably in her thirties, asked me, "How in good conscience could you drop bombs on people and then go down and strafe them with machine guns?" I said, "Miss, I'm a Jew and we were fighting the Nazis. How can you even ask me a question like that?" The lady just shrugged her shoulders and walked away. My answer must have angered or annoyed her.

GOLD: One problem with the S. African gold mines is a problem that is haunting all of S. Africa -- rampant crime. All over S. Africa there are killings, car-jackings, muggings, kidnappings. The crime is so bad that many strange suggestions are coming forth regarding how to halt car-jacking -- one is keeping a bottle of poisoned liquor in the car. Thus, the car-jacker steals the car, takes a drink and dies (ah, sweet revenge).

I believe the crime situation could be a problem for the mines. *Atlantic Monthly* magazine this month features a full-length article on stealing diamonds from the diamond mines, another huge problem, where sometimes 20% of the take is stolen.



Back to gold. It just doesn't go anywhere, this despite the fact that all the world's central banks are grinding out paper currencies at a furious rate. Maybe instead of gold, platinum is the way to go -- platinum, which has rallied from an October low of 341 to a recent high of 387, up 16% in four months. Then there's palladium, which has rallied from a December low of 269 to a February high of 368, a rise of 37%. Silver has risen from an extreme low of 5.41 in December to a recent high of 5.81. But gold -- just no action. Is it a conspiracy, a government-sponsored plot? Some think it is, but I doubt it. But consider this -- gold coins are selling like mad. India actually has a shortage of gold coins. Go figure.

The cream of the gold shares and the world's biggest gold producer is Barrick Resources. If anything positive is happening in gold, Barrick should show it. So far, Barrick isn't showing much -- but if Barrick got above 19½ that would be the first positive indication.

LATE NOTES: As a rule, any time a stock or a stock average or the A-D ratio declines on as much as 12 out of 15 days, the item (market) is severely over-sold and a rally can almost be guaranteed.

Now get this -- as of March 3, the advance-decline ratio had declined an **incredible 16 out of 19 days or 84% of the time.** That must be some kind of record, because I don't ever remember seeing a series like that before (OK, it may have happened before, but I just don't remember seeing it).

And then, just as incredible, in the face of that almost unmatched series of A-D declines, in the face of that almost historic downside compression, the A-D ratio failed by a tiny fraction to violate its October 8 low of 2.42 (the A-D ratio on March 3 halted at 2.48 -- see page 2 chart). To top it off, all through this extraordinary breadth decline the big-cap average refused to turn weak.

Result -- the next day, March 4, saw the Dow surge 192 points accompanied by an unimpressive A-D ratio rise. But Friday, March 5 was a better story. On Friday, March 5, the Dow surged 268 points to close at a new record high. This time the A-D did somewhat better, and I added a lackluster 0.33 to the A-D ratio. New highs for March 5 numbered an unimpressive 78 or only 2% of all NYSE issues traded on that day (only five Dow stocks hit new record highs). The press heralded it as a "new high for the stock market." Well, not exactly.

Question: Russell, has anything happened to change your overall opinion about this market?

Answer: No, the big picture, according to my studies, remains the same. Consider the following: valuations remain at historic never-seen-before highs, the ratio of stock yields to bond yields is at 4.3, an historic high. New highs on the NYSE topped out at over 600 in October 1997. Buying power on the NYSE topped out last April (as per *Lowry's Buying Power and Selling Pressure* service). The A-D ratio, a proxy for ALL the stocks on the NYSE, topped out on April 3. The Transports topped out on April 16. The broad Value Line Composite (1617 stocks) topped out on April 21. The DJ Utilities topped out on October 9. Thus, what we're seeing is the continued rise of a limited number of big-cap stocks -- the stocks that are the driving force behind the Dow and the S&P Composite.

The late surge in the Dow plus the S&P is not unusual when a major top is forming. The narrow new Dow high makes for good reading in the newspapers and it keeps the public optimistic, happy and most important -- buying stocks.

This market continues to be volatile, dangerous, overvalued, over-hyped and loaded with amateur participants and neophyte day-traders -- all intent on beating the bear. For serious investors, investors who fully understand the concept of risk and reward, the best place to be is on the sidelines watching the show. You don't have to be in on every move or every swing of the market. In my opinion, the one we're seeing is one to be missed.

Check In: The great advantage of checking daily on our www.dowtheoryletters.com web site was made evident last week. In the message of March 3 (the rally began on March 4), I warned that the market was severely oversold based on 16 out of 19 days of decline in the A-D ratio -- and that the odds of a rally were high.

STANLEY: Stanley Kubrick died last Sunday. He was, in the opinion of many film experts, the greatest movie director of his time. Said Steven Spielberg, "Stanley Kubrick was the grandmaster of filmmaking. He copied no one, and all of us were scrambling to imitate him." Kubrick was a long-time subscriber, and I corresponded with him over the years. Rest in peace, Stanley (more about him in the next Letter).

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